

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Forest Township	County Cheboygan
Fiscal Year End March 31, 2006	Opinion Date July 12, 2006	Date Audit Report Submitted to State July 26, 2006	

We affirm that:

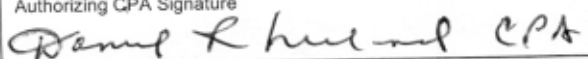
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Daniel R. Nieland C.P.A.		Telephone Number 231-627-4396	
Street Address 201 South Main Street		City Cheboygan	State MI
Zip 49721		License Number 12250	
Authorizing CPA Signature 		Printed Name Daniel R. Nieland C.P.A.	

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDING
MARCH 31, 2006

DANIEL R. NIELAND

CERTIFIED PUBLIC ACCOUNTANT

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MEMBER
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
AND
MICHIGAN ASSOCIATION OF CERTIFIED
PUBLIC ACCOUNTANTS

Supervisor and Members Of
The Township Board of Trustees
Forest Township
Cheboygan County, Michigan 49721

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, of Forest Township, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of government activities, each major fund and the aggregate remaining fund information of Forest Township as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally in the United States of America.

As described in the footnotes, Forest Township has implemented a new financial reporting model, as required by the provisions of *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as amended and interpreted as of March 31, 2006.

The Management's Discussion and Analysis, and budgetary comparison information on pages 4 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Forest Township's basic financial statements. The schedules listed as other supplemental information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Forest Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, based on my audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CERTIFIED PUBLIC ACCOUNTANT

July 12, 2006
Cheboygan, Michigan 49721

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING MARCH 31, 2006

The Management's Discussion and Analysis for Forest Township covers the Township's financial performance during the year ended March 31, 2006.

Financial Highlights

Our financial status remained stable over the last year. Net assets increased from \$428,008 to \$442,138 for an increase of \$14,130.

Overall revenue was \$175,726. Taxable value increased by approximately \$1,263,569 to \$21,251,342. We incurred no new debt.

Overview of Financial Statements

This annual report consists of three parts, Management's Discussion and Analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

Entity-Wide Financial Statements

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING MARCH 31, 2006

Entity-Wide Financial Statements (continued)

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All activities of the Township are reported as governmental activities, and there are no business type activities. Governmental activities include the General Fund and Liquor Law Enforcement Fund.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds, focusing on significant funds and not the Township as a whole. In the section for other supplement information, the General Fund revenue and expenditures are shown on the line item basis. Funds are used to account for specific activities or funding sources. Some funds are just required by law. The Township Board may also create them. Funds are established to account for funding and spending financial resources and to show proper expenditures of those resources.

The Township has the following funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and Liquor Law Enforcement Fund.

Financial Analysis of the Township as a Whole

Our cash position in all governmental activities remains solid. Year-end cash position of all funds is as follows:

General Fund	\$197,940
Liquor Law Enforcement Fund	<u>(29)</u>
Total Government Fund Cash	<u>\$197,911</u>

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING MARCH 31, 2006

Financial Analysis of the Township's Funds

Individual fund balances remain solid, as indicated by year-end balance and net change reflected below:

	Balance March 31, <u>2005</u>	Balance March 31, <u>2006</u>	Increase (Decrease)
General Fund	\$221,084	\$244,399	\$ 23,315
Liquor Law Enforcement Fund	<u>164</u>	<u>(29)</u>	<u>(135)</u>
Totals	<u>\$221,248</u>	<u>\$244,370</u>	<u>\$ 23,180</u>

Capital Assets and Long-Term Debt Activity

The Township's total capital outlay in governmental funds was \$2,298. There was no long-term debt activity either new borrowing or principal repayment.

Discussion of Factors Affecting the Future

The Township is currently in the process of having the boat launch repaired and clearing the beach area on Tower Pond.

We will have a one mil renewal millage vote on the ballot this fall. The Forest-Waverly Fire Department has repaid the \$15,000 loaned to them in 2003. They are also making quarterly payments of \$1,800 plus interest on \$42,631 loaned to them in 2005. We have invested in two CD's this year in the amount of \$25,000 each. In 2005, we began road improvements and plan to continue this year and in 2007. We also have brine applied to gravel roads every year.

Contacting the Township's Management

This financial report is designed to provide our citizens, taxpayers, and other interested parties with a general overview of Forest Township's finances and also to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Forest Township Clerk, at 9148 Black River Road, Onaway, Michigan 49765.

GENERAL PURPOSE FINANCIAL STATEMENTS

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
STATEMENT OF NET ASSETS
FOR THE YEAR ENDING MARCH 31, 2006

	<u>Primary Government Government Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash	\$197,911
Taxes Receivable	6,694
Loans Receivable – Fire Department	<u>41,775</u>
 Total Current Assets	 <u>246,380</u>
NON-CURRENT ASSETS:	
CAPITAL ASSETS:	
Land and Land Improvements	35,095
Buildings	242,071
Equipment	23,158
Accumulated Depreciation	<u>(102,556)</u>
 Total Non-Current Assets	 <u>197,768</u>
 Total Assets	 <u><u>\$444,148</u></u>
LIABILITIES:	
Accounts Payable	<u>2,010</u>
 Total Liabilities	 <u>2,010</u>
NET ASSETS:	
Invested in Capital Asset, Net of Related Debt	197,768
Unrestricted	<u>244,370</u>
 TOTAL NET ASSETS	 <u><u>\$442,138</u></u>

The accompanying notes are an integral
part of these financial statements.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING MARCH 31, 2006

					Net (Expense) Revenue And Changes In <u>Net Assets</u>
					<u>Primary Government</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Government Activities</u>
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Legislative	\$ 4,024	\$ 0	\$ 0	\$ 0	\$ (4,024)
Executive	11,368	0	0	0	(11,368)
General Services and Administration	37,109	0	0	0	(37,109)
Public Safety	43,946	0	0	0	(43,946)
Public Works	18,802	0	0	0	(18,802)
Sanitation	32,136	10,970	0	0	(21,166)
Other	<u>14,211</u>	<u>370</u>	<u>0</u>	<u>0</u>	<u>(13,841)</u>
TOTAL GOVERNMENT ACTIVITIES	<u>161,596</u>	<u>11,340</u>	<u>0</u>	<u>0</u>	<u>(150,256)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$161,596</u>	<u>\$ 11,340</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>(150,256)</u>
GENERAL REVENUES:					
Taxes					75,896
State Shared Revenues					76,860
Interest and Rentals					6,343
Miscellaneous					<u>5,287</u>
TOTAL GENERAL REVENUES					<u>164,386</u>
CHANGE IN NET ASSETS					14,130
NET ASSETS - BEGINNING					<u>428,008</u>
NET ASSETS - ENDING					<u>\$442,138</u>

The accompanying notes are an integral
part of these financial statements.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
GOVERNMENTAL FUNDS
BALANCE SHEET
FOR THE YEAR ENDING MARCH 31, 2006

	General <u>Fund</u>	Liquor Law Enforcement <u>Fund</u>	Total Government <u>Funds</u>
ASSETS:			
Cash	\$197,940	\$ (29)	\$197,911
Taxes Receivable	6,694	0	6,694
Loans Receivable -Fire Dept.	<u>41,775</u>	<u>0</u>	<u>41,775</u>
 TOTAL ASSETS	 <u>\$246,409</u>	 <u>\$ (29)</u>	 <u>\$246,380</u>
 LIABILITIES AND FUND BALANCE:			
LIABILITIES:			
Accounts Payable	\$ <u>2,010</u>	\$ <u>0</u>	\$ <u>2,010</u>
 Total Liabilities	 <u>2,010</u>	 <u>0</u>	 <u>2,010</u>
 FUND BALANCE:			
Unreserved	<u>244,399</u>	<u>(29)</u>	<u>244,370</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$246,409</u>	 <u>\$ (29)</u>	 <u>\$246,380</u>

The accompanying notes are an integral part of these financial statements.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDING MARCH 31, 2006

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$244,370
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Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	<u>197,768</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$442,138</u>
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FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDING MARCH 31, 2006

	General Fund	Liquor Law Enforcement Fund	Total Government Funds
REVENUE:			
Taxes	\$ 75,896	\$ 0	\$ 75,896
State Shared Revenue	76,475	385	76,860
Interest	3,263	0	3,263
Rents	3,080	0	3,080
Reimbursements	5,287	0	5,287
Refuse	10,970	0	10,970
Cemetery	<u>370</u>	<u>0</u>	<u>370</u>
Total Revenue	<u>175,341</u>	<u>385</u>	<u>175,726</u>
EXPENDITURES:			
Legislative	4,024	0	4,024
Executive	11,368	0	11,368
General Services and Administration	28,117	0	28,117
Public Safety	43,368	578	43,946
Public Works	18,802	0	18,802
Sanitation	32,136	0	32,136
Other	<u>14,211</u>	<u>0</u>	<u>14,211</u>
Total Expenditures	<u>152,026</u>	<u>578</u>	<u>152,604</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES	23,315	(193)	23,122
FUND BALANCE - BEGINNING	<u>221,084</u>	<u>164</u>	<u>221,248</u>
FUND BALANCE - ENDING	<u>\$244,399</u>	<u>\$ (29)</u>	<u>\$244,370</u>

The accompanying notes are an integral part of these financial statements.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING MARCH 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 23,122
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Depreciation Expense	<u>\$ 8,992</u>	<u>(8,992)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 14,130</u>

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
FOR THE YEAR ENDING MARCH 31, 2006

	Agency Fund Type Property Tax Collection <u>Fund</u>
ASSETS:	
Cash	<u>\$ 11</u>
TOTAL ASSETS	<u><u>\$ 11</u></u>
LIABILITIES:	
Due Other Funds	<u>\$ 11</u>
TOTAL LIABILITIES	<u><u>\$ 11</u></u>

The accompanying notes are an integral
part of these financial statements.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township of Forest in Cheboygan, Michigan, have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) which do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Township are described below.

(1) REPORTING ENTITY

Forest Township is an incorporated Township, which operates under a Supervisor – Board form of government. The Township provides the following services: public safety, highways and streets, sanitation, public improvements and general administrative services.

The Township has considered all potential component units in valuating how to define the Township for financial reporting purposes. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statement 14 of the Government Accounting Standards Board (GASB), *The Financial Reporting Entity*. The basic criteria includes the appointment of a voting majority of the governing board of the unit; legal separation of the Township and the component unit, fiscal independence of the unit, whether exclusion of the unit would make the Township's financial statements misleading, and whether there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Township. There are no component units to be included in these statements.

The financial reporting entity of Forest Township includes all funds and accounts of the Township.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT -WIDE FINANCIAL STATEMENTS

Forest Township's basic financial statements include both government -wide (reporting the Township as a whole) and fund financial statements (reporting the Township's major funds). Both the government -wide and fund financial statements categorize primary activities as either governmental or business -type. The Township's legislative, public works, public safety, community and economic development, recreation and culture and general services and administration are classified as governmental activities. Forest Township does not have any activity that is classified as business -type activities.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the government -wide Statement of Net Assets, both the governmental activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

The government -wide Statement of Activities reports both the gross and net cost of each of Forest Township's functions. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating – specific and discretionary (either operating or capital) grants while the capital grants column reflects capital – specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

The government -wide focus is more on the sustainability of Forest Township as an entity and the change in net assets resulting from the current year's activities. The effect of interfund activities has been removed from these statements.

(3) BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Township are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Township:

Government Funds

The focus of the governmental fund's measurement (in the statements) is upon determination of financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Township:

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- General Fund – General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.
- Liquor Law Enforcement Fund – This is a State mandated fund to fund liquor establishment inspection.

The Township's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the Township, these funds are not incorporated into the government -wide statements.

(4) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental activities in the government -wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider has been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or with 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt services expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) FINANCIAL STATEMENT AMOUNTS

Budgets

All governmental funds are under formal budgetary control. Budgets shown in the financial statements as “GAAP Basis” are adopted on a basis consistent with generally accepted accounting principles (GAAP) and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved and amended by the Township Board. Budgets are adopted on the departmental level and control is exercised on that level.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years.

All capital assets are valued historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land Improvements	20 years
Building, Structures and Improvements	40 years
Equipment	5-10 years

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

Property taxes are levied as of December 1 of each year and are due by the last day of the following March. The taxes are collected by the local unit and periodically remitted to the third parties during the collection period.

Interfund Activity

All interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Vacation and Sick Leave

The Township has no liability for accumulated vacation or sick leave.

Implementation of New Accounting Principles

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – And Management's Discussion And Analysis – For State And Local Governments* (GASB No. 34). Some of the significant changes in the Statement include the following:

- For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.

- Financial statements prepared using full accrual accounting for the entire Townships' activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

NOTE B – COMMON CASH ACCOUNTS AND SHORT-TERM INVESTMENTS

Cash equity in the common bank account of the Township as utilized by the various funds is as follows:

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE B – COMMON CASH ACCOUNTS AND SHORT-TERM INVESTMENTS
(continued)

	<u>Checking</u>
General	\$ 5,096
Liquor	<u>(28)</u>
Total	<u>\$ 5,068</u>

These deposits and interest payment accounts are with local financial institutions. All accounts are in the name of the Township. Interest is recorded when deposits mature or is credited to the applicable account.

Michigan Compiled Laws Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities or guaranteed by the Government National Mortgage Association; United States government or Federal Agency obligation repurchase agreements; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal or direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature no more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in the financial institutions located in states other than Michigan.

The Township deposits are in accordance with statutory authority. The Governmental Account Standards Board (GASB) Statement Number 3 risk disclosures for the Township cash deposit are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insurance (FDIC)	\$100,000
Uninsured	<u>97,942</u>
Total	<u>\$197,942</u>

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE C – CAPITAL ASSETS

A summary of the capital assets of the Governmental Activities is as follows:

	Balance at April 1, <u>2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance at March 31, <u>2006</u>
GOVERNMENTAL ACTIVITIES:				
Land	\$ <u>5,538</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>5,538</u>
Total Capital Assets, Not Being Depreciated	<u>5,538</u>	<u>0</u>	<u>0</u>	<u>5,538</u>
Land Improvements	29,557	0	0	29,557
Buildings and Improvements	242,071	0	0	242,071
Furniture and Equipment	<u>20,860</u>	<u>2,298</u>	<u>0</u>	<u>23,158</u>
Total Capital Assets Being Depreciated	<u>292,488</u>	<u>2,298</u>	<u>0</u>	<u>294,786</u>
Less Accumulated Depreciation:				
Land Improvements	11,497	1,037	0	12,534
Buildings and Improvements	72,197	6,052	0	78,249
Furniture and Equipment	<u>9,870</u>	<u>1,903</u>	<u>0</u>	<u>11,773</u>
Total Accumulated Depreciation	<u>93,564</u>	<u>8,992</u>	<u>0</u>	<u>102,556</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$204,462</u>	<u>\$ (6,694)</u>	<u>\$ 0</u>	<u>\$197,768</u>

A depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

General and Administrative	<u>\$ 8,992</u>
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FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE D – DEFINED CONTRIBUTION PENSION PLAN

The Township of Forest contributes to a defined contribution pension plan.

A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's accounts are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account. The returns are earned on investments of these contributions.

The plan calls for employee contributions of 6.0%. All contributions are 100% vested upon deposit. The plan covers all employees of Forest Township.

During the year, required contributions were made for both employee and employer shares in the amount of \$2,604.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

The plan held no securities of the Township or other related parties during the year or as of the close of the fiscal year.

NOTE E – CONTINGENT LIABILITIES

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained commercial insurance to handle its risk of loss.

NOTE F – BUDGET VARIANCES

Budgets are adopted on the departmental level. There were some unfavorable variances as shown in the supplemental section of these statements. A recommendation has been made to amend the budget when necessary. There were no budget amendments during the year.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2006

NOTE G – JOINT VENTURE

The Forest-Waverly Fire Department is a joint venture between Forest Township and Waverly Township which was created in accordance with Michigan P.A. No. 7 and 8 of 1967 and P.A. No. 10 of 1985. Each Township funds the Fire Department equally. Each Township appoints board members. All management and policy decisions are the responsibility of the Fire Department Board. The Forest-Waverly Fire Department has prepared financial statements and is audited separately from the Township's audit. Bi-annual audited financial statements may be obtained by contacting the Fire Board Secretary or the Township Clerk.

NOTE H – LOANS RECEIVABLE – FIRE DEPARTMENT

The Township has advanced funds to the Forest-Waverly Fire Department (a component unit of Waverly Township) for the purpose of buying a van. The funds are being repaid at \$1,000 per quarter plus interest at 2.0%. The beginning loan balance was \$15,000. Balance due as of March 31, 2006, is \$4,000. Additionally, a second loan was made in the amount of \$42,631.58. Repayment on this loan is \$1,800 per quarter including interest at 2.0%. The current balance is \$37,775.

SUPPLEMENTAL INFORMATION

GENERAL FUND

FOREST TOWNSHIP
GENERAL FUND
BALANCE SHEET
FOR THE YEAR ENDING MARCH 31, 2006

ASSETS:	
Cash	\$197,940
Taxes Receivable – Real Delinquent	6,694
Loan Receivable – Fire Department	<u>41,775</u>
 TOTAL ASSETS	 <u><u>\$246,409</u></u>
 LIABILITIES:	
Accounts Payable	\$ <u>2,010</u>
 TOTAL LIABILITIES	 <u>2,010</u>
 GENERAL FUND BALANCE	 <u>244,399</u>
 TOTAL LIABILITIES AND GENERAL FUND BALANCE	 <u><u>\$246,409</u></u>

The accompanying notes are an integral
part of these financial statements.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDING MARCH 31, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Current Property Tax	\$ 40,000	\$ 49,788	\$ 9,788
Swamp Tax & Comm. Forest	27,000	26,108	(892)
State Shared Revenue	64,500	76,475	11,975
Interest Earnings	2,000	3,263	1,263
Rents	3,000	3,080	80
Reimbursements	500	5,287	4,787
Refuse	11,000	10,970	(30)
Cemetery	<u>1,000</u>	<u>370</u>	<u>(630)</u>
TOTAL REVENUE	<u>149,000</u>	<u>175,341</u>	<u>26,341</u>
EXPENDITURES:			
Legislative:			
Township Board	<u>5,000</u>	<u>4,024</u>	<u>976</u>
Total Legislative	5,000	4,024	976
Executive:			
Supervisor	<u>11,500</u>	<u>11,368</u>	<u>132</u>
Total Executive	11,500	11,368	132
Elections:			
Elections	<u>1,000</u>	<u>0</u>	<u>1,000</u>
Total Elections	1,000	0	1,000
General Services Administration:			
Clerk	6,000	5,762	238
Board of Review	1,000	969	31
Treasurer	8,000	8,227	(227)
Township Hall and Grounds	5,700	5,675	25
Cemetery	<u>5,000</u>	<u>7,484</u>	<u>(2,484)</u>
Total General Services Administration	25,700	28,117	(2,417)

The accompanying notes are an integral
part of these financial statements.

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDING MARCH 31, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
EXPENDITURES: (continued)			
Total Fire Protection:			
Fire Protection	\$ 55,000	\$ 43,368	\$ 11,632
Total Fire Protection	55,000	43,368	11,632
Public Works:			
Highways, Streets and Bridges	10,600	17,235	(6,635)
Street Lighting	<u>0</u>	<u>1,567</u>	<u>(1,567)</u>
Total Public Works	10,600	18,802	(8,202)
Sanitation:			
Sanitary Landfill	<u>27,000</u>	<u>32,136</u>	<u>(5,136)</u>
Total Sanitation	27,000	32,136	(5,136)
Other Functions:			
Health	10,200	7,795	2,405
Pension	2,000	1,302	698
Insurance and Bonds	5,000	4,784	216
Social Security	<u>0</u>	<u>330</u>	<u>(330)</u>
Total Other Functions	<u>17,200</u>	<u>14,211</u>	<u>2,989</u>
Total Expenditures	<u>153,000</u>	<u>152,026</u>	<u>974</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	<u>\$ (4,000)</u>	23,315	<u>\$ 27,315</u>
FUND BALANCE – APRIL 1, 2005		<u>221,084</u>	
FUND BALANCE – MARCH 31, 2006		<u>\$244,399</u>	

The accompanying notes are an integral
part of these financial statements.

NON-MAJOR GOVERNMENTAL FUNDS

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NON-MAJOR GOVERNMENTAL FUNDS
BALANCE SHEET
FOR YEAR ENDING MARCH 31, 2006

	Liquor Law Enforcement Fund
ASSETS:	
Cash	\$ <u>(29)</u>
TOTAL ASSETS	\$ <u><u>(29)</u></u>
LIABILITIES AND FUND BALANCES:	
Fund Balance	\$ <u>(29)</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u><u>(29)</u></u>

FOREST TOWNSHIP
CHEBOYGAN COUNTY, MICHIGAN
NON-MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDING MARCH 31, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
State Shared Revenue	<u>\$ 600</u>	<u>\$ 385</u>	<u>\$ (215)</u>
Total Revenue	600	385	<u>(215)</u>
EXPENDITURES:			
Law Enforcement	<u>600</u>	<u>578</u>	<u>22</u>
Total Expenditures	<u>600</u>	<u>578</u>	<u>22</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 0</u>	(193)	<u>\$ (193)</u>
FUND BALANCE – APRIL 1, 2005		<u>164</u>	
FUND BALANCE – MARCH 31, 2006		<u>\$ (29)</u>	

The accompanying notes are an integral part of these financial statements.

OTHER

DANIEL R. NIELAND

CERTIFIED PUBLIC ACCOUNTANT

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FAX: (231) 627-6594

MEMBER
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
AND
MICHIGAN ASSOCIATION OF CERTIFIED
PUBLIC ACCOUNTANTS

To The Supervisor and Township Board
Forest Township
Cheboygan, Michigan 49721

In planning and performing my audit of the financial statements of Forest Township for the year ended March 31, 2005, I considered its internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted no matters involving the internal control structure and its operation that I consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process.

There were instances of unfavorable budget variances as shown in the supplemental data. The Board should review ongoing expenditures to budget and approve amendments as necessary. Generally, though the Board has approved payment, it may exceed the approved budget.

Negative Fund Balance

The Liquor Law Fund at year-end has a negative balance. State revenue sharing has been reduced because of the closing of an establishment. Inspection has been reduced accordingly. If there is still a negative balance, a transfer should be made from the General Fund.

Forest Township

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July 12, 2006

We appreciate and would like to thank the Township's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.



CERTIFIED PUBLIC ACCOUNTANT

Cheboygan, Michigan 49721

July 12, 2006